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Reasons for Decision

Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission

RHW-1-2005

November 2005

Tolls

Canada

National Energy Board

Reasons for Decision

In the Matter of

Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission

Application dated 30 June 2005 for Approval of Certain Firm Service Enhancements in Zones 3 and 4

RHW-1-2005

November 2005

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Abbreviations

AOS	Authorized Overrun Service
B.C.	British Columbia
CAPP	Canadian Association of Petroleum Producers
EUG	Export Users Group
NEB or the Board	National Energy Board
NEB Act or the Act	*National Energy Board Act*
NGSC	Natural Gas Steering Committee
NWIGU	Northwest Industrial Gas Users
STFS	Short Term Firm Service
Terasen	Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.
T-North	Mainline Transportation Service Northern (see also Zone 3)
T-South	Mainline Transportation Service Southern (see also Zone 4)
UDCC	Underutilized Demand Charge Credits
U.S.	United States of America
Westcoast	Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission
Zone 1	Raw Gas Transmission Service
Zone 2	Treatment Service
Zone 3	Mainline Transportation Service Northern
Zone 4	Mainline Transportation Service Southern

Glossary of Terms

AECO	North American gas marketing centre located in Alberta.
Base Toll	A firm service toll with a two-year contract term upon which premiums and discounts for all other contract terms are based (under the term differentiated toll proposal).
Contract Demand	Volume of residue gas specified in a firm service agreement that Westcoast is obligated to deliver on any day at a delivery point or through a zone.
Delivery Point	The point specified in a service agreement where Westcoast delivers gas to or for the account of a shipper.
Firm Service	The obligation of Westcoast to provide, at a shipper's request, any transportation service or Short Term Firm Service up to the applicable contract demand specified in the service agreement, without curtailment or interruption.
Interruptible Service	The obligation of Westcoast to provide, at a shipper's request, transportation service up to the applicable volume of gas specified in the service agreement, subject to curtailment or interruption.
Load Factor	The ratio of the average contract utilization to the maximum contract quantity for the same period, usually expressed over one year and as a percentage.
Long-Haul	Northern transportation service that is not short-haul.
Receipt Point	The point specified in a service agreement where gas is delivered to Westcoast by or for the account of a shipper.
Revenue Credit	Methodology used to calculate underutilized demand charge credits on a daily basis. Equal to the product obtained by multiplying the applicable commodity toll for interruptible service - northern short-haul by the lesser of (i) the volume of unutilized firm service - northern short-haul for the day, or (ii) the volume of interruptible service - northern long-haul in respect of which such commodity tolls are otherwise payable by the shipper for the day.
Settlement	Westcoast's Multi-year Incentive Toll Settlement (1997 to 2001) approved by the Board in its RH-2-97 Reasons for Decision

Short-Haul	Transportation service – northern – provided for a distance of less than 75 kilometres to a Delivery Point in Zone 3 other than the ABC/Boundary Lake Interconnection and the ABC/Gordondale Interconnection.
Toll and Tariff Task Force	A group comprised of representatives of Westcoast and any other party interested in Westcoast toll and tariff matters.
Volume Credit	Methodology used to calculate underutilized demand charge credits on a daily basis. Equal to the lesser of (i) the volume of such unutilized firm service - northern short-haul for the day, or (ii) the volume of interruptible service – northern short-haul in respect of which commodity tolls are otherwise payable by the shipper for the day.

Recital and Submittors

IN THE MATTER OF the *National Energy Board Act* and the regulations made thereunder;

IN THE MATTER OF an application by Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission, for approval of certain firm service enhancements in Zones 3 and 4, filed with the National Energy Board under File No. 4200-W005-18.

IN THE MATTER OF National Energy Board Hearing RHW-1-2005.

Examined by way of written submissions.

BEFORE:

D.W. Emes	Presiding Member
E. Quarshie	Member
C.L. Dybwad	Member

SUBMITTORS TO HEARING RHW-1-2005:

Canadian Association of Petroleum Producers

Export Users Group

Natural Gas Steering Committee

Northwest Industrial Gas Users

Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.

Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission

Chapter 1

Introduction

1.1 Background

Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission (Westcoast), owns and operates a natural gas pipeline system extending from points in the Yukon Territory, the Northwest Territories, Alberta and British Columbia (B.C.) to a point on the international boundary between Canada and the United States of America (U.S.) near Huntingdon, B.C. (see Figure 1-1).

Westcoast provides shippers on its pipeline system with raw gas transmission service (Zone 1), treatment service (Zone 2) and mainline transmission service (Zones 3 and 4) in respect of natural gas produced in B.C., Alberta, the Yukon Territory and the Northwest Territories.

The General Terms and Conditions and Toll Schedules in Westcoast's tariff establish the services, related terms, conditions and tolls on Westcoast's system.

On 30 June 2005, Westcoast applied for approval of certain enhancements to the firm services provided in Zones 3 and 4 (Application).

On 11 July 2005, the Board issued a letter inviting comments on the process to deal with the Application as well as on a preliminary list of issues. The Board received comments from the Canadian Association of Petroleum Producers (CAPP), the Natural Gas Steering Committee (NGSC), the Northwest Industrial Gas Users (NWIGU), Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. (collectively Terasen), the Export Users Group (EUG) and Westcoast. All submissions supported a written proceeding for the Board's consideration of the Application.

On 26 July 2005, the Board issued Hearing Order RHW-1-2005 establishing a written public hearing to consider the Application. The Hearing Order provided the opportunity for an abbreviated proceeding if no party other than Westcoast were to file evidence by 8 September 2005. Since no party other than Westcoast filed evidence in this proceeding, written arguments were received between 15 September 2005 and 12 October 2005.

On 4 August 2005, Terasen requested that the Board extend the 30 September 2005 deadline for notice to renew Westcoast firm service capacity expiring 31 October 2006 to 10 days after the issuance of the Board's RHW-1-2005 Decision. The Board received comments on the request from Westcoast, Terasen, BP Canada Energy Company and EUG. The Board issued a letter of decision on 9 September 2005 denying the request (attached as Appendix II to these Reasons for Decision).

1.2 Overview of the Application

Westcoast explained in its Application that following the 30 September 2003 and 30 September 2004 contract renewal processes, significant amounts of capacity were not renewed on a firm basis and there is now a significant amount of uncontracted firm service in both Zone 3 (T-North) and Zone 4 (T-South).

Westcoast requested approval of three firm service enhancements with the objective of increasing the value of firm service to both existing and potential shippers and to encourage higher levels of firm service contracting. Specifically, Westcoast proposed the following:

1. To introduce, on a permanent basis, term differentiated firm service tolls in Zones 3 and 4. The toll for interruptible service in Zones 3 and 4 would be fixed by reference to the tolls for one-year firm service and the minimum tolls for any Short Term Firm Service (STFS) in Zones 3 and 4 would be fixed at a level equal to the tolls for interruptible service.

2. To introduce, on a two-year pilot program basis, Authorized Overrun Service (AOS) under which firm service shippers would be entitled to priority access to any interruptible service capacity on the system for up to 10 percent of their firm service contract demands in Zones 3 and 4.

3. To introduce, on a permanent basis, daily cross-corridor crediting in Zone 3, which will enable firm service shippers to offset any interruptible service tolls (including any tolls for AOS) they would otherwise incur anywhere in Zone 3 on days when they also have unutilized firm service anywhere in Zone 3.

1.3 List of Issues

In Hearing Order RHW-1-2005, the Board identified, but did not limit itself to, the following issues for discussion in the proceeding:

1. The appropriateness of the proposal for Term Differentiated Firm Service Tolls.

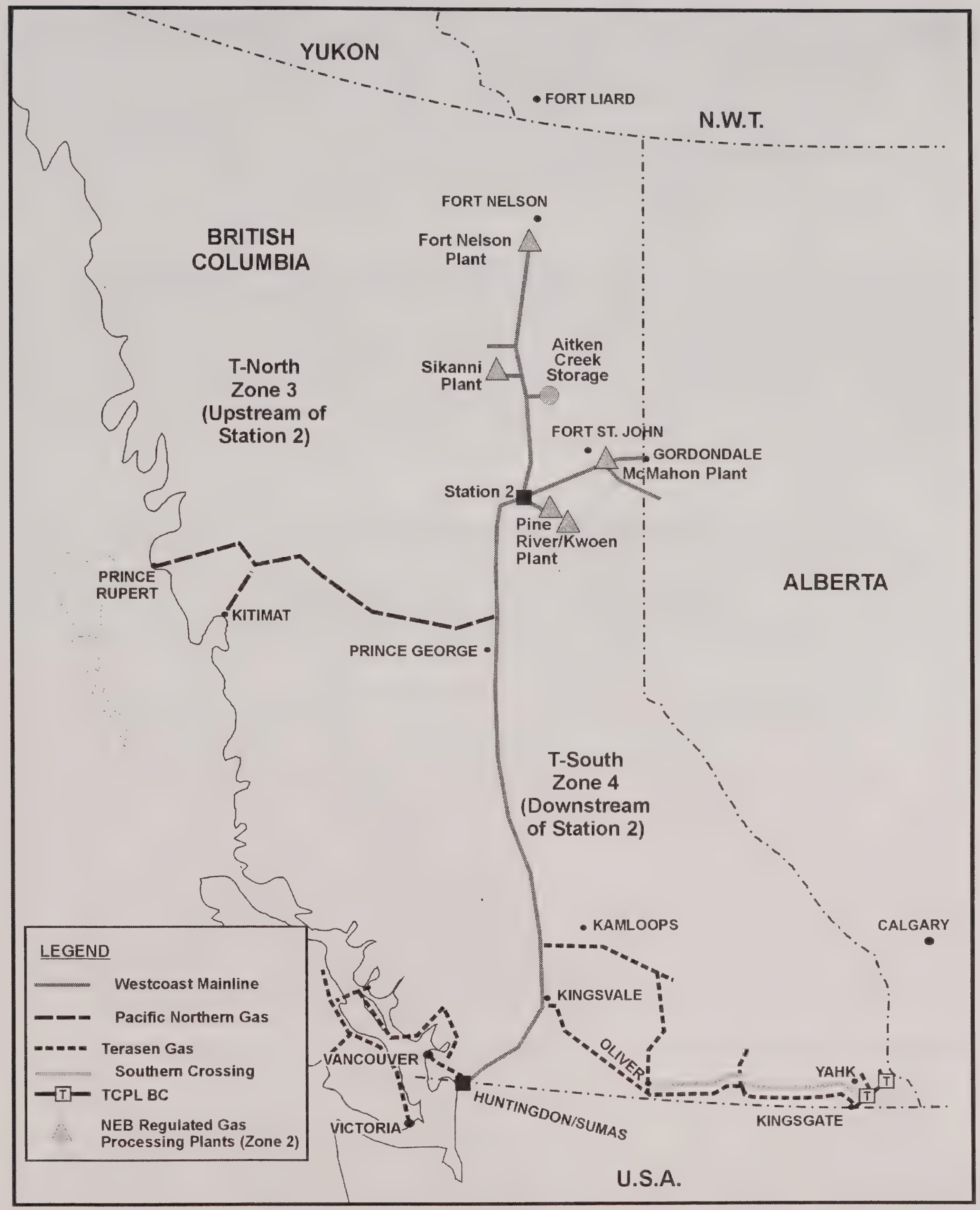
2. The appropriateness of the proposed pricing of Interruptible and Short Term Firm Service.

3. The appropriateness of the proposal for Authorized Overrun Service for Firm Service Holders.

4. The appropriateness of the proposal for Daily Cross-Corridor Crediting in Zone 3.

5. The appropriate term, if any, of each of the proposed service enhancements.

Figure 1-1
Westcoast Processing and Transmission System



Chapter 2

Term Differentiated Firm Service, Interruptible Service and Short Term Firm Service Tolls

2.1 Term Differentiated Firm Service Tolls

2.1.1 Position of Westcoast

Westcoast proposed to introduce, on a permanent basis commencing 1 January 2006, term differentiated firm service tolls in Zones 3 and 4 to provide shippers with an incentive to contract for firm service over longer terms. Westcoast explained that all other aspects of its firm service tolls would continue to be based on the existing toll design and Westcoast's annual test year revenue requirement in Zones 3 and 4. Term differentiated tolls would be established for each of Westcoast's firm services using the following fixed premium or discounts shown in Table 2-1, expressed in percentage terms relative to a base toll with a two-year term.

Table 2-1
Term Differentiated Toll Proposal

Contract Term (in Years)	Premium or Discount Relative to the Base Toll
1	+3%
2	0% (Base Toll)
3	-3%
4	-4%
5 or more	-5%

The absolute level of the tolls for each of the five term categories would depend on the actual contracting levels and allocation units in each category for the year. For a customer contracting for firm service in either Zone 3 or 4, the firm service would be designated for tolling purposes as either 1, 2, 3, 4 or 5-year service based on the specific contract term for the service chosen by the customer. Once designated, the service would retain the same designation throughout the term of the service, subject to the ongoing ability of a shipper to extend (but not reduce) the term of the service and thereby increase the term designation of the service for tolling purposes.

The term designation for existing service contracted prior to 1 November 2005 would be based on the remaining contract term of that service as of 1 November 2005. As a transitional measure, Westcoast would, for a period of 30 days after approval by the Board, provide all existing shippers with the opportunity to extend the term of their existing firm services in order to qualify for the lower tolls for longer term service commencing 1 January 2006.

The term designation for new or renewed service after 1 November 2005 would be based on the contract term at the time the shipper contracts for the new or renewed service with Westcoast.

Westcoast's tolls would continue to be based on a forecast of the firm service contract demand allocation units for the year. Any change in allocation units within any of the five term categories after the tolls have been fixed and approved by the Board for any particular year would not result in an adjustment to the term differentiated tolls for that year. Rather, any difference in the firm service revenue collected by Westcoast in any year as a result of differences between the allocation units that were used to fix the tolls for that year and the actual allocation units for that year would be recorded in Westcoast's contract demand revenue deferral account for disposition in the subsequent year.

In response to suggestions that the term differentiated toll proposal be implemented on a pilot basis or be reviewed in two years, Westcoast stated that the proposal does not lend itself to the pilot concept both because of the long-term nature of the proposal and the unfairness of changing the tolls after a shipper has committed to a long-term arrangement. Nevertheless, Westcoast noted that any party may, at any time, request that the Board review Westcoast's tolls provided appropriate grounds exist for such a review.

2.1.2 Positions of Parties

CAPP acknowledged that Westcoast is currently facing some contracting challenges on its system. CAPP agreed with Westcoast that modest enhancements to firm service that would encourage higher levels of firm service contracting on the system is the preferred course of action to take at this time. In the current and specific circumstances of contracting on the Westcoast system, CAPP indicated that it could support term differentiated firm service tolls.

EUG supported approval of term differentiated firm service tolls because, in its view, the proposed enhancement provides an incentive, albeit modest and somewhat uncertain, for shippers to contract for firm service for longer terms. EUG noted that, as the levels of decontracting on the Westcoast system have risen, there has been a growing disincentive to hold firm service for longer terms. As the length of term of a shipper's contract increases, so too does the proportionate risk borne by that shipper. EUG stated that term differentiated firm service tolls will create an opportunity for those shippers who effectively backstop cost recovery of the system to receive some benefit for the risk that they assume.

EUG stated that Westcoast has properly applied for term differentiated firm service tolls to be a permanent tariff change and noted that if the level of firm service contracting changes significantly in the future, some adjustment to the enhancement may be appropriate.

NGSC submitted that the basic concept behind the term differentiated firm service toll proposal has merit but it was not convinced that the discount/term structure is sufficiently developed to yield the expected results. Nevertheless, in NGSC's view, the best path forward is to test the proposal and then refine it after two years with the benefit of some operating experience. In NGSC's submission, in order to protect the integrity of the concept, any contract that is signed during the proposed two-year trial period should be allowed to continue for the duration of the contract term on the basis of the toll discount established at the time the contract is signed.

Terasen stated that it generally supports the term differentiated firm service toll proposal. It submitted that, in this era of significant decontracting, the proposal reduces the level of risk for Westcoast by encouraging an increase in the average contracting term and rewards the shippers who assume the greatest risks and costs by contracting longer term. Terasen stated that the only concern it has with the proposal is that it does nothing for those parties who are only able or willing to contract for one or two years.

NWIGU stated that it supports the proposed firm service enhancements for Zones 3 and 4 and it requested that the Board approve all the proposals as filed.

Views of the Board

In the past few years, increasing amounts of firm service have not been re-contracted in Zones 3 and 4, placing upward pressure on Westcoast's firm service tolls. The Board recognizes the efforts of Westcoast and its stakeholders to arrive at solutions to address the decontracting issue and keep tolls as competitive as possible.

The Board views the term differentiated toll proposal as an innovative response to Westcoast's current contracting challenges that would provide an incentive for shippers to contract for firm service over longer terms. While not all parties were convinced that the level of discounts included in the proposal will provide sufficient incentive to increase firm service contracting, the concept of term differentiated tolls was not opposed by any party.

Under Westcoast's proposal, shippers who make a longer term commitment to the system, and thereby assume a higher level of pipeline underutilization risk, will pay relatively lower tolls than those shippers with shorter term contracts. In the Board's view, the lower tolls act to compensate longer term shippers for the increased risk they bear. Economic efficiency is enhanced by allowing shippers to choose and pay for the level of risk they are prepared to accept. For the foregoing reasons, the Board approves Westcoast's proposal for term differentiated tolls.

Given the uncertainty over whether the proposed discounts will provide a sufficient incentive to encourage firm service contracting over longer terms, the Board is of the view that Westcoast should file with the Board, and serve on its shippers and Toll and Tariff Task Force members, a report on the impact of term differentiated firm service tolls on its system after two years of operating experience. The report should include information on contracting under the proposal and an assessment of the proposed discounts and term structure.

Decision

The Board approves the term differentiated firm service toll proposal and directs Westcoast to file a report with the Board, on or before 28 February 2008, on the impact of the proposal on firm service contracting on its system. The report should also be served on Westcoast's shippers and Toll and Tariff Task Force members.

2.2 Interruptible Service and Short Term Firm Service Tolls

2.2.1 Position of Westcoast

Westcoast's tolls for interruptible service in Zones 3 and 4 are currently set at the equivalent of the firm service tolls at 75 percent load factor in the winter (November 1 to March 31) and at 100 percent load factor in the summer (April 1 to October 31). In addition, the minimum toll for any STFS in Zones 3 and 4 is currently set at the equivalent of the interruptible service toll. With the proposed introduction of term differentiated firm service tolls, Westcoast also applied for approval to:

(a) fix the interruptible service tolls in Zones 3 and 4, using the same 75 percent load factor for winter service and 100 percent load factor for summer service as currently used, with reference to the firm service tolls for one-year service; and

(b) fix the minimum tolls for STFS in Zones 3 and 4 at a level equal to the tolls for interruptible service.

2.2.2 Positions of Parties

CAPP noted that the proposal to set interruptible service tolls with reference to the firm service tolls for one-year service represents an increase to the existing summer and winter interruptible service tolls, given adoption of Westcoast's term differentiated toll proposal. It pointed out that Westcoast's proposed tolling structure for interruptible service in the winter season would result in the highest interruptible service toll in Canada. CAPP stated that it understands the reasons why Westcoast is proposing that interruptible service tolls be referenced to the proposed tolls for one-year firm service. It stated that no further increase in the interruptible service tolls, beyond that proposed by Westcoast in this Application, is warranted.

EUG submitted that the current quality of interruptible service on the Westcoast system is very high, as there is a very low probability of interruption. Consequently, EUG stated that it believes that interruptible service tolls are too low given the current level of firm service contracting on Westcoast's system and it encouraged the Board to increase interruptible service tolls to a more appropriate level, perhaps in a stepped scale tied to the level of firm service contracting.

As the minimum STFS tolls are set equal to the interruptible service tolls, EUG submitted that the STFS tolls as proposed are too low and suggested that the Board increase them. EUG also argued that STFS should only be offered when 85 percent or more of transmission capacity within a zone is contracted, and that the minimum toll for terms less than the five-month winter period should increase in inverse proportion to the length of time contracted (i.e., a three-month winter service would have a higher unit toll than a five-month winter service).

NGSC supported Westcoast's proposed interruptible service and STFS toll levels on the condition that the Board review them in two years.

Terasen supported the setting of interruptible service tolls based on the tolls for one-year firm service. However, Terasen noted that the 75 percent load factor pricing presently in place for winter interruptible service has been in place for a number of years. Terasen asserted that the circumstances of Westcoast's pipeline system have dramatically changed and measures beyond Westcoast's modest proposals are required to encourage higher levels of firm service contracting on the pipeline.

In Terasen's view, the 75 percent load factor pricing for winter service will not be sufficient to encourage potential shippers to contract for firm service. Terasen submitted that the interruptible service toll for winter service in Zones 3 and 4 should be increased to 70 percent load factor pricing to encourage more contracting for firm service in the current circumstances. Terasen also submitted that only when there is 10 percent or less uncontracted capacity in a zone should the tolls for winter interruptible service revert to the 75 percent load factor pricing.

On the issue of pricing for STFS, Terasen agreed with Westcoast's position that the interruptible service toll forms the floor for the STFS toll, subject to the condition that should Westcoast offer STFS in the winter for a period less than the entire winter season, then the minimum STFS toll should increase in proportion to the decrease in the term. Further, Terasen submitted that STFS should not be offered in either Zone 3 or 4 until the applicable zone is contracted to at least 90 percent of the contractible capacity. Implementing such a criterion before STFS is offered would send a signal to potential shippers that the options available to them in the near term are either interruptible or annual firm service.

In its reply comments, CAPP noted that both Terasen and EUG advanced proposals in argument that tolls for interruptible service should be increased beyond the amount suggested by Westcoast. In CAPP's view, the claims that discouraging interruptible service via higher tolls would lead to more contracting of firm service or increased revenue to reduce firm service tolls are unsupported and untested assumptions. CAPP therefore argued that Terasen and EUG's proposals for interruptible service tolls should be rejected.

Likewise, CAPP argued that the alternative proposals for STFS put forward by Terasen and EUG should be rejected as they were not supported by direct evidence nor subject to an information request process.

Westcoast adopted the views of CAPP concerning the appropriateness of Terasen and EUG raising proposals in final argument and submitted that the Board should disregard the submissions of Terasen and EUG on these matters.

Views of the Board

The Board notes that Westcoast has only applied for changes to its interruptible service and STFS tolls as a result of the introduction of term differentiated firm service tolls. The Board agrees that other proposals to modify the tolls or characteristics of these services should have been advanced through evidence and argument, not by argument alone. If that had been done, parties would have had an opportunity to test these proposals through the information request process and the Board would have had a more complete record upon which to consider the merits and implications of the proposals.

The Board notes that Westcoast's interruptible service tolls in the winter are already very high in comparison with other pipelines in Canada. The consequential changes arising from the introduction of term differentiated tolls will result in a further slight increase. The Board is of the view that increases over and above what Westcoast has proposed should not be implemented without more detailed evidence on the impact those increases would have on the market and Westcoast's throughput. Therefore, the changes proposed by Westcoast with respect to interruptible service and STFS tolls are approved without the modifications proposed by other parties.

The Board is of the view that Westcoast should assess the toll levels for interruptible service and STFS after two years of operating experience. Therefore, Westcoast should include in its report on term differentiated tolls an assessment of the toll levels for interruptible service and STFS.

Decision

The Board approves Westcoast's proposal to fix the interruptible service tolls in Zones 3 and 4 using the same 75 percent load factor for winter service and 100 percent load factor for summer service as currently used, with reference to the firm service tolls for one-year service.

The Board approves Westcoast's proposal to fix the minimum tolls for STFS in Zones 3 and 4 at a level equal to the tolls for interruptible service.

The Board directs Westcoast to include in its report to the Board on term differentiated tolls an assessment of the toll levels for interruptible service and STFS.

Chapter 3

Authorized Overrun Service

3.1 Position of Westcoast

Westcoast proposed to introduce AOS as a firm service enhancement in Zones 3 and 4. Westcoast submitted that AOS is intended to provide an incentive for shippers to maintain firm service levels in the short term and, over the long term, contract for higher levels of firm service as the amount of available uncontracted capacity declines. Westcoast described AOS as an interruptible service providing firm service shippers with a daily entitlement to interruptible service capacity of up to 10 percent of the aggregate contract demand for each firm service. AOS would have lower priority than firm service but higher priority than other interruptible service and would only be available on the path (contract receipt point to contract delivery point) of the underlying firm service. Firm service holders would be required to nominate AOS separately from their firm service nominations and any interruptible service nominations.

Furthermore, AOS would be considered a contract attribute of firm service and as such could not be assigned by a firm service holder separate and apart from the firm service itself. Westcoast argued that AOS would not offer priority access and a higher priority of services to one class of interruptible shippers over another class of interruptible shippers for the same toll since it is a contract attribute of firm service.

Westcoast proposed AOS as a two-year pilot program to enable Westcoast to assess the effectiveness of the service enhancement on the level of firm service contracting, although Westcoast acknowledged that it would be difficult to attribute any future change in service levels to AOS. Westcoast's proposed toll for AOS is the same as the toll for interruptible service; that is, 75 percent (winter) and 100 percent (summer) load factor equivalent of the one-year firm service toll.

Westcoast submitted that if the Board approves Westcoast's AOS proposal, a number of modifications to its gas management system would be required. Westcoast anticipates that these modifications would take approximately eight months to develop and implement. The estimated cost of these modifications is $815,000.

3.2 Positions of Parties

Terasen, EUG and NWIGU supported Westcoast's AOS proposal. Terasen and EUG were of the view that the proposed AOS entitlements for firm service shippers will increase the value of firm service and encourage higher levels of firm service contracting on the Westcoast system. Terasen submitted that firm service shippers who continue to contract for annual service bear an increasing burden due to the decontracting of others, and those that continue to contract for annual firm service are at risk of increasing toll levels as other parties give up annual firm service. Furthermore, Terasen argued that AOS is the only Westcoast proposal that encourages

annual firm service contracting for shippers who are only willing to contract for one or two years.

NGSC also supported Westcoast's AOS proposal, but on the condition that AOS is only available when the aggregate of firm service contracts on the Westcoast system reaches 85 percent of the system capacity in the applicable zone. NGSC submitted that the AOS proposal will only add value to firm service and encourage higher levels of firm service contracting once interruptible service capacity approaches a level where interruptible service is at real risk of being curtailed.

CAPP did not support Westcoast's AOS proposal. CAPP expressed the view that AOS is nothing more than priority interruptible service and it is not an attribute of firm service. CAPP argued that AOS would have the exact same characteristics as interruptible service at the same toll; however, firm shippers would have priority access to this interruptible service. CAPP submitted that the AOS priority access is unwarranted and is contrary to principles of non-discriminatory open access and economic allocative efficiency. Furthermore, CAPP noted that Westcoast acknowledged that it would be difficult to attribute any future changes in service levels to this proposed service enhancement.

Views of the Board

The Board notes that in the context of this Application, AOS has several unique service characteristics. These include:

- AOS is only available to firm service shippers;
- the maximum amount of AOS available is limited to 10 percent of the aggregate contract demand for each firm service held;
- AOS is only available on the path of the underlying firm service; and
- AOS is not assignable, except as connected with its corresponding firm service.

The Board is of the view that these service characteristics link AOS to firm service in such a way as to make AOS an attribute of firm service. As an attribute of firm service, it follows that AOS is not traffic of the same description carried under substantially the same circumstances and conditions as the current interruptible service offered in Westcoast's tariff. The Board notes that the right to nominate AOS arises as a result of payment of the firm service toll. As such, AOS is not tolled in the same manner as interruptible service. Therefore, the Board is of the view that the AOS proposal, particularly the characteristic of priority access over other interruptible service, is not discriminatory. Furthermore, given the Board's finding that the AOS proposal is not discriminatory and as all shippers have the opportunity to contract for firm service, the Board is of the view that the proposal will not compromise principles of open access

and economic allocative efficiency. Accordingly, the Board approves Westcoast's AOS proposal.

The Board is of the view that a two-year pilot program will not diminish this service enhancement's upside potential but could mitigate any potential downside risks. Therefore, the Board considers a two-year pilot program suitable. Furthermore, the Board is of the view that AOS will increase the value of firm service at any level of aggregate firm service contracts. Therefore, the Board is not persuaded by NGSC that AOS should only be implemented when the aggregate of firm service contracts on the Westcoast system reaches 85 percent of the system capacity in the applicable zone.

Decision

The Board approves Westcoast's AOS proposal on a two-year pilot program basis from the date of implementation.

Chapter 4

Cross-Corridor Crediting

4.1 Overview

Westcoast currently provides firm service holders with Underutilized Demand Charge Credits (UDCC) to offset interruptible service tolls in Zones 3 and 4. A T-North shipper who underutilizes its firm service on any day is entitled to either a revenue or volume credit. UDCC offset any interruptible service tolls within the same corridor on that day up to the amount of the underutilized firm service.[1] Zone 3 consists of three distinct corridors, as shown in Figure 4-1:

1. the Fort Nelson Corridor, which includes the Fort Nelson Mainline;

2. the Fort St. John Corridor, which includes the Fort St. John Mainline, the Alberta Mainline and the Boundary Lake Pipeline; and

3. the Pine River Corridor, which includes the Pine River Mainline.

The intra-corridor restriction on the use of UDCC means underutilized firm service in one corridor cannot be used to offset interruptible service tolls incurred in another corridor.

The current UDCC provisions were introduced in 1998 in accordance with the terms of Westcoast's Multi-year Incentive Toll Settlement (1997 to 2001) approved by the Board in its RH-2-97 Decision (the Settlement). The Settlement also introduced the corridor concept in Zone 3. Given that there was no distinction between corridors prior to the Settlement, there was effectively no restriction by corridor on UDCC in Zone 3 before 1998.

4.2 Position of Westcoast

Westcoast's proposal would eliminate the current restriction on cross-corridor crediting and create one corridor for billing purposes. The change would be effective 1 January 2006 if approved by 1 November 2005. With the change, any shipper who underutilizes its firm service anywhere in Zone 3 on any day will be entitled to either a revenue or volume credit to offset any interruptible service or AOS tolls anywhere in Zone 3 on that day up to the amount of its underutilized firm service. The revenue or volume credit would continue to be calculated as set out in Article 6 of Westcoast's Toll Schedule for T-North Service.

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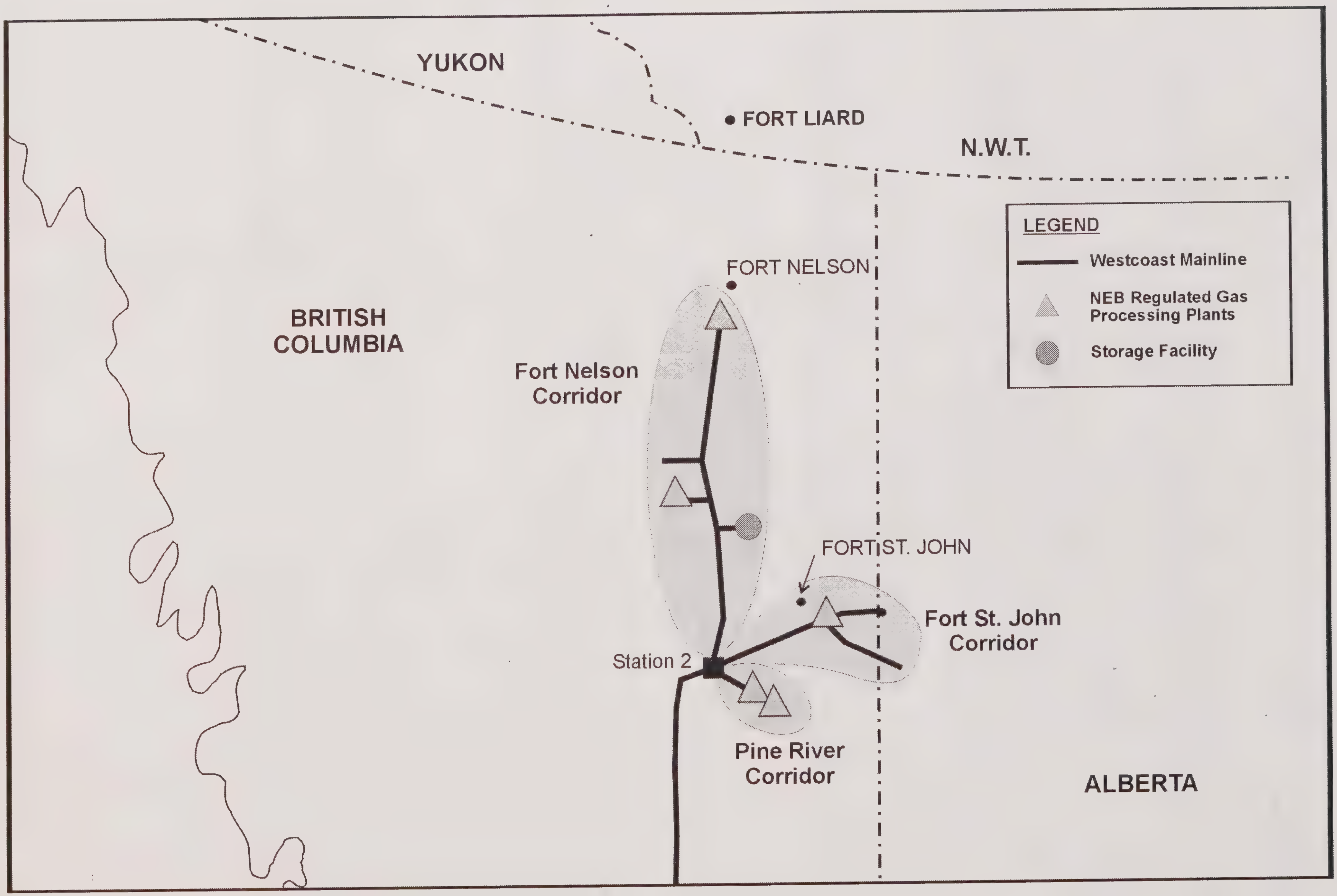
1 In Zone 3, the only situation where an explicit revenue credit can occur is when a shipper underutilizes short-haul firm service and incurs tolls for long-haul interruptible service; other permutations result in a volume credit.

Figure 4-1
Westcoast T-North Corridors



Westcoast submitted that the proposed service enhancement would increase flexibility for T-North shippers to maximize contract utilization to a level closer to that experienced by T-South shippers. At present, all interruptible service in T-South is credited back to any unused firm service for any service segment, but T-North crediting is limited to designated segments deemed to be within Zone 3. Westcoast contended that the additional flexibility that this enhancement will provide would attract higher levels of firm service contracting.

Westcoast acknowledged that some concern was expressed during stakeholder consultation meetings that cross-corridor crediting might result in increased flows to Alberta at the expense of flows to the T-South market. However, Westcoast submitted the price differential between AECO and Station 2 tends to be less than the incremental interruptible service cost to access the Alberta market and would, therefore, not provide the economic incentive to divert flows to Alberta.

Westcoast estimated that eliminating the restriction on cross-corridor crediting would reduce T-North discretionary revenue by about 38 percent (or $1.2 million) and increase T-North tolls by 1.9 percent, assuming firm service contracting levels remain constant. However, Westcoast submitted that its experience in Zones 1 and 2 (where it already provides cross-corridor crediting) suggests that shippers are more comfortable contracting for firm service when they have the ability to mitigate underutilized firm service.

4.3 Positions of Parties

EUG argued that Westcoast is incorrect in assuming that the additional flexibility to maximize contract utilization will entice shippers to hold more T-North firm service. EUG noted that it appears that lifting the restriction on cross-corridor crediting will facilitate more cost-efficient use of firm service so shippers can do more with less service. Thus, the enhancement may have the undesirable, and unintended, effect of enabling and encouraging certain shippers to reduce their firm service commitment. Consequently, the effect may be counter-productive to the objective of encouraging higher levels of firm service contracting.

EUG and Terasen submitted that they are unaware of any changes in circumstances that would negate the benefits of separate corridors. The proposal, which effectively eliminates the separate corridors, would benefit shippers whose firm service contracts are not consistent with their physical flow because the UDCC would offset interruptible service tolls and thereby reduce transmission costs. As a result, overall interruptible service revenues will decline, thereby reducing discretionary revenue that is credited against firm service revenue. Thus, as a consequence, tolls will increase, increasing transmission costs for shippers whose firm service contracts are consistent with their physical flow. Furthermore, EUG and Terasen contended that the risk that shippers with physical flows on a particular corridor are denied capacity held by others who do not have physical flows on that corridor would also increase. The elimination of separate corridors would also increase the risk that unnecessary expansion capital would be expended to provide facilities not required for physical flows. Thus, the negative effects of eliminating separate corridors by removing the restriction on cross-corridor crediting would outweigh the benefits.

As a result, EUG proposed two modifications to Westcoast's proposal. First, the change should be introduced as a one-year pilot program to allow an opportunity to assess the effectiveness of the service change. Second, crediting should be limited to a maximum of 10 percent of the firm service contract demand in Zone 3, making the relative benefit of the daily cross-corridor crediting more comparable to the AOS proposal.

Terasen argued that Westcoast provided no measurement, or even estimate, of what cross-corridor crediting would achieve, yet Westcoast proposed that the change be permanent.

Terasen stated producers seem to be reducing their firm service capacity to meet their average flow on the Pine River and Fort Nelson Corridors. However, on the Fort St. John Corridor, shippers have reduced their firm service capacity well below their average flow. Terasen submitted that Westcoast's Application failed to address this major issue for Zone 3 and provided no evidence that the proposal would encourage shippers and potential shippers on the Fort St. John Corridor to contract for firm service capacity.

Terasen also expressed concern about the potential of the proposal to facilitate increased flows to Alberta and increase Station 2 prices, which would tend to decrease contracting in Zone 4.

Terasen argued that Westcoast's assertion that T-South shippers have flexibility similar to cross-corridor crediting is incorrect or misleading at best, and submitted the flexibility on T-South is of a very limited nature.

Terasen submitted that the proposal should be rejected. However, if the Board approved the proposal, Terasen argued it should be on a pilot program basis and as a revenue credit. A revenue credit would better align cross-corridor crediting with the cost of alternative interruptible service.

NGSC acknowledged that the basic concept of cross-corridor crediting has sufficient merit to warrant testing. However, NGSC submitted that it is not convinced the added flexibility would lead to greater use of the system or provide increased revenue and, therefore, the enhancement should be introduced as a two-year pilot program. The effects of the program would then be evaluated by the Board to ensure the desired objectives are achieved.

NWIGU supported the proposal and urged the Board to approve the Application as filed.

CAPP also supported Westcoast's proposal and contended that many T-North shippers would find this firm service enhancement attractive and that daily cross-corridor crediting in Zone 3 would provide a degree of flexibility comparable to that in Zone 4.

CAPP submitted that allowing shippers in Zone 3 to more fully utilize their existing capacity and to do more with less service, as Terasen and EUG submitted, are exactly the reasons why the proposal should be approved. CAPP stated that this is entirely consistent with the Board's Corporate Goal that Canadians derive the benefits of economic efficiency.

CAPP argued that the alternative proposals for cross-corridor crediting put forward by Terasen and EUG should be rejected as they were not supported by direct evidence or subject to an information request process.

Views of the Board

The Board notes that limited evidence was submitted by parties, including Westcoast, to support arguments regarding the expected directional change in firm service contracting that could result from cross-corridor crediting. Accordingly, the Board is of the opinion that there remains uncertainty around how contracting will be impacted.

Nevertheless, the Board recognizes that Westcoast is operating in an environment in which significant decontracting is occurring. In this environment, the Board is of the view that Westcoast should be allowed to explore options that have the potential to increase the value of firm service and encourage higher levels of firm service contracting, subject to measures which mitigate the associated risks. Specifically, it is important that new ideas intended to improve the outcome for both the pipeline and its shippers be tested in a manner which limits adverse consequences. This manner of testing is analogous to the process of innovation in a competitive market, and has the potential to increase economic efficiency and improve outcomes in the public interest.

The Board views the proposed change to the UDCC provisions as an innovative attempt to increase the value of firm service and encourage higher levels of firm service contracting. Accordingly, the Board approves the introduction of daily cross-corridor crediting.

However, given the uncertainty, the Board is of the view that daily cross-corridor crediting should be implemented as a pilot program. The Board is not persuaded that a one-year pilot program, as requested by EUG, is sufficient time to evaluate the performance of the enhancement. The Board believes that two years would be an appropriate period.

In addition, the Board has not been persuaded by EUG that limiting the amount of the credit to some proportion of contract demand would be more likely to encourage a higher level of firm contracting. Therefore, EUG's proposed modification to Westcoast's proposal is rejected.

Decision

The Board approves daily cross-corridor crediting as a two-year pilot program from the date of implementation.

Chapter 5

Toll Design Review

5.1 Positions of Parties

Terasen submitted that Westcoast's response to the significant decontracting on its transmission system has been modest proposals that will do little to achieve the objective of encouraging higher levels of firm service contracting. Terasen submitted that Westcoast has failed to bring forward a broad-based review of its tolls and services. Westcoast is now applying for changes to its toll design in a piecemeal fashion, while the Westcoast system is experiencing significant decontracting. In Terasen's view, a comprehensive review of Westcoast's toll design is required to ensure that a toll design that truly encourages firm service contracting on the pipeline, and is the most appropriate to meet Westcoast's current circumstances, is in place.

Terasen proposed that all firm service enhancements that are to be approved, only be approved as pilot projects for two years and be reviewed at the end of the pilot period as part of a comprehensive toll design review.

Terasen argued that the current consensus approach to Westcoast toll design does not work. The lack of consensus among the shippers and Westcoast is evidence of sharp divides between the parties and the inability of the Toll and Tariff Task Force to arrive at any meaningful toll design initiatives. Terasen submitted that the lack of consensus points to the need for a broad overall review by the Board of Westcoast's toll design before giving final approval to any of the toll design changes that Westcoast proposes in its Application.

Terasen noted Board statements from the RH-2-2001 Decision that Westcoast had begun a process, in consultation with its customers, that may lead to significant revisions to its current toll design and that Westcoast expected to have an application before the Board by 2003.

CAPP submitted that Terasen's proposal for a comprehensive toll design review should be rejected because it has not been supported by direct evidence nor subject to an information request process.

5.2 Position of Westcoast

Westcoast stated in reply argument that it has no plans for a comprehensive toll design application and, accordingly, Terasen's proposed condition is not practical. Further, Westcoast indicated that it has been actively engaged in discussions with its stakeholders with respect to various tolling issues, and that in Westcoast's judgement, there is no need or desire for a comprehensive review of the current toll design and that a comprehensive review would not result in a cure-all solution for the current issue of decontracting.

Views of the Board

As stated in previous Board Decisions, the Board is of the view that a piecemeal approach to broader toll design changes can be undesirable, particularly if parties are not aware or properly informed of either the desired end-result or the interaction between current and subsequent changes. At the same time, the Board is aware that any comprehensive toll design review is a significant undertaking. Before ordering such a review, the Board must be persuaded of its benefits.

In this case, the Board has not been persuaded by Terasen's argument that the current state of decontracting or the lack of consensus amongst shippers and Westcoast requires such a review. In coming to this conclusion the Board notes that no party other than Terasen asked for such a review. Further, the Board notes that CAPP submitted that the proposal for a review should be rejected and that Westcoast indicated its view that there was neither need for nor broad based support for such a review. In these circumstances, the Board declines to direct that Westcoast conduct a comprehensive toll design review.

Decision

The Board will not direct that Westcoast conduct a comprehensive toll design review at this time.

Chapter 6

Disposition

The foregoing chapters and Order TG-06-2005 constitute our Decision and Reasons for Decision in respect of Westcoast's Firm Service Enhancement Application and all matters heard by the Board in the RHW-1-2005 proceeding.

Deborah Emes

D.W. Emes
Presiding Member

E. Quarshie
Member

C. Dybwad
Member

Calgary, Alberta
November 2005

Appendix I

Order TG-06-2005

IN THE MATTER OF the *National Energy Board Act* and the regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission (Westcoast), dated 30 June 2005, for approval of certain firm service enhancements in Zones 3 and 4, pursuant to Part IV of the National Energy Board Act, filed with the National Energy Board under File 4200-W005-18 (the Application).

BEFORE the Board on 2 November 2005.

WHEREAS the Board considered Westcoast's Application at a written public hearing pursuant to Hearing Order RHW-1-2005;

AND WHEREAS the Board received evidence from Westcoast and submissions from Westcoast and the intervenors on the proposed firm service enhancements;

AND WHEREAS, the Board's decisions on the Application are set out in its RHW-1-2005 Reasons for Decision and this Order;

AND WHEREAS the Board is satisfied that Westcoast's proposed firm service enhancements in Zones 3 and 4 will result in tolls that are just and reasonable, and will not result in unjust discrimination in tolls, service or facilities;

THEREFORE, IT IS ORDERED, pursuant to Part IV of the *National Energy Board Act*, that:

1. Westcoast shall introduce Term Differentiated Firm Service Tolls in Zones 3 and 4, as proposed in the Application and approved in the Board's Reasons for Decision RHW-1-2005;

2. Westcoast shall fix the pricing of interruptible service and short term firm service tolls in Zones 3 and 4 as proposed in the Application and approved in the Board's Reasons for Decision RHW-1-2005;

3. Westcoast shall file a report on the impact of Term Differentiated Firm Service Tolls and an assessment of the toll levels for interruptible service and short term firm service with the Board no later than 28 February 2008 and serve the report on Westcoast shippers and Toll and Tariff Task Force members as directed in the Board's Reasons for Decision RHW-1-2005;

4. Westcoast shall introduce Authorized Overrun Service for firm service holders in Zones 3 and 4, on a two-year pilot program basis, as proposed in the Application and approved in the Board's Reasons for Decision RHW-1-2005;

5. Westcoast shall introduce daily Cross-Corridor Crediting in Zone 3, on a two-year pilot program basis, as approved in the Board's Reasons for Decision RHW-1-2005;

6. Westcoast shall, for accounting, toll-making and tariff purposes, implement procedures to conform with the Board's decisions in the Board's RHW-1-2005 Reasons for Decision;

7. Westcoast shall make all tariff changes necessary to implement the decisions in the Board's RHW-1-2005 Reasons for Decision and, at least 14 days prior to the implementation of each of the approved firm service enhancements, file with the Board and serve on all Westcoast shippers and members of its Toll and Tariff Task Force, revised tariff provisions conforming with the Board's RHW-1-2005 Reasons for Decision;

NATIONAL ENERGY BOARD

Michel L. Mantha
Secretary

Appendix II

Letter of Decision on Request to Change Contract Renewal Deadline

File 4200-W005-18
9 September 2005

Mr. Scott A. Thomson
Vice President, Financial and Regulatory Affairs
Terasen Gas Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Dear Mr. Thomson:

Hearing Order RHW-1-2005;
Application for Firm Service Enhancements by Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission (Westcoast);
Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. (collectively Terasen Gas) request to move the date for notice to renew Westcoast firm service capacity expiring 31 October 2006.

In a letter to the Board dated 4 August 2005, Terasen Gas requested that the Board move the 30 September 2005 deadline for notice to renew Westcoast firm service capacity expiring 31 October 2006 to 10 days after the issuance of the Board's RHW-1-2005 decision. The Board received a letter of comment from Westcoast on 8 August 2005, opposing Terasen Gas' request. On 9 August 2005, the Board initiated a process for hearing comments from all interested parties. Comments were received from Westcoast, Terasen Gas, BP Canada Energy Company (BP), and the Export Users Group (EUG).

BP submitted that good cause should be shown to justify relief from the tariff. Terasen Gas and EUG argued that parties are facing heightened uncertainty as a result of Westcoast's pending application that will affect their renewal decisions. They were of the view that extension of the contract renewal date will minimize uncertainty for parties and will not harm Westcoast. BP also indicated that an extension of the deadline may be appropriate.

Westcoast asserted that the renewal period exists to help Westcoast plan and manage its business. Further, the renewal right and 13-month notice period have value and that changing the contract renewal period redistributes risk between parties. Westcoast argued that an extended renewal deadline is not needed because the service enhancements are modest and will only enhance the value of firm service. In order to take advantage of lower tolls, Westcoast has proposed a 30-day post-decision window to enable its shippers to extend the term of their firm service contracts if Westcoast's application is approved.

In response, Terasen Gas argued, among other things, that in this particular environment of excess capacity, Westcoast does not require the full notification period to plan and manage its business. Additionally, Terasen Gas argued that Westcoast's shippers bear the pipeline's utilization risk.

After considering all of the comments received, the Board has decided to deny Terasen Gas' request. The Board agrees with BP's submission that good cause should be shown to justify relief from the tariff. The Board notes that contract renewal decisions are often made in an environment of some uncertainty. There may be some incremental uncertainty in this case as a result of Westcoast's application; however, the Board finds that this uncertainty can be sufficiently mitigated through Westcoast's proposed 30-day window in which shippers may extend the term of their contract, should the Board approve Westcoast's application. In addition, the current circumstance of excess capacity on Westcoast and the potential for shippers to recontract for capacity once the Board's decision is known, as noted by BP, provide a further opportunity to mitigate uncertainty raised by the application.

Accordingly, Terasen Gas and the other parties who have submitted comments have not persuaded the Board that such uncertainty, after mitigation, is sufficient to justify the Board interfering with Westcoast's tariff provisions. Therefore, the Board denies Terasen Gas' request for a one-time extension of the contract renewal notification deadline.

With respect to Terasen Gas' request in its letter dated 31 August 2005 to include the nature of Short Term Firm Service as an issue in the proceeding, the Board has previously issued its decision on this matter, and refers Terasen Gas to the Board's letter dated 9 August 2005.

Terasen Gas is directed to serve a copy of this letter on all RHW-1-2005 Interested Parties and directly, or with the assistance of Westcoast, on all existing shippers on the Westcoast system.

Yours truly,

Michel L. Mantha
Secretary